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EARNED INCOME TAX CREDIT (EITC)

by Betty T. Yee

More workers could be eligible for a special federal tax credit this year and not know it. As a result, they may overlook claiming the Earned Income Tax Credit, or EITC, which can put anywhere from \$2 to more than \$5600 into their pockets.

People move into and out of EITC eligibility based on changes in their earnings, their parental status, or their marital status. Many will qualify for the first time this year due to changes in their incomes or financial situations.

Q: What is the Earned Income Tax Credit?

A: The Earned Income Tax Credit or the EITC is a refundable federal income tax credit for low to moderate-income working individuals and families. When EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. To claim the credit, a federal income tax return must still be filed.

Q: How is the EITC a beneficial program?

A: The EITC is one of the largest antipoverty programs. Nationwide last year, over 26 million people received nearly \$59 billion in EITC. Of these recipients, 2.9 million were Californians who received an average EITC of \$2,194. The total EITC for Californians was in excess of \$6.4 billion. The EITC has lifted an estimated 6.6 million people out of poverty, including 3.3 million children.

Q: Are all eligible individuals claiming the EITC?

A: The Internal Revenue Service (IRS) estimates that 20 to 25 percent of qualifying workers miss out on thousands of dollars every year because they fail to claim their EITC. This means that without increasing the awareness and utilization of the credit, more than 700,000 eligible California workers could miss the opportunity to claim the EITC. With an average EITC of \$2,194, if eligible California workers fail to claim the credit, refunds in excess of \$1.5 billion could go unclaimed. Generally, workers with limited English skills, rural residents, Native Americans, people with disabilities, and nontraditional families (grandparent raising a grandchild), are most likely to overlook this credit. Recently divorced or unemployed could also overlook this credit.

Q: Are eligible individuals at a detriment when they do not claim the EITC?

A: When eligible Californians fail to claim EITC refunds, they miss the opportunity to receive money that could assist them in their day-to-day living expenses. For example, if a single mother with two qualifying children fails to claim her EITC refund, which could be as much as \$5,036, the refund would not be available for the mother to purchase shoes, clothes, and other basic needs for the family.

Not only is there a financial loss to the family, the California economy suffers because the money that could have been spent at the local retail stores was not claimed as an EITC refund.

Q: Are there maximum income and credit amounts?

- A: Income and family size determines the amount of the EITC. The credit is reduced as earning increases, and reduced to zero when earned income exceeds the allowable amount.

For the tax returns that are due this April, which is the 2010 tax year, the earned income (wages, salaries, and tips) must be less than:

- \$43,352 (\$48,362 married filing jointly) with three or more qualifying children
- \$40,363 (\$45,373 married filing jointly) with two qualifying children
- \$35,535 (\$40,545 married filing jointly) with one qualifying child
- \$13,460 (\$18,470 married filing jointly) with no qualifying children

The maximum credit for the 2010 tax year is:

- \$5,666 with three or more qualifying children
- \$5,036 with two qualifying children
- \$3,050 with one qualifying child
- \$457 with no qualifying children

Q: What are some of the basic EITC eligibility requirements?

- A: All individuals claiming the EITC must have earned income, a valid social security number, and generally be a U.S. citizen or resident alien for the entire year. The filing status of "married filing separate" is not allowed, the worker cannot be a qualifying child of another person, and investment income (interest and dividend) cannot exceed \$3,100.

A qualifying child is the individual's son, daughter, stepchild, eligible foster child, adopted child or grandchild. The qualifying child may also be the individual's brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them (for example, a niece or nephew). The child must be under the age of 19. If the child is a full-time student, he or she must be under the age of 24. If the child is permanently and totally disabled at any time during the year, there is no age limit.

Q: Are there any tools available to help individuals determine eligibility for EITC?

- A: EITC Assistant, an online program sponsored by the Internal Revenue Service, will help individuals determine their eligibility. The EITC Assistant also calculates the amount of EITC individuals may receive. The EITC Assistant is available in English and Spanish and is available at www.irs.gov.

Q: Are there services that will help individuals in preparing their tax returns?

- A: Trained community volunteers, such as the Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs, can help individuals in preparing their federal and California income tax returns, including the EITC. Some offer services in Spanish, Chinese, Vietnamese, and Korean. There are also free e-file programs with the IRS and the Franchise Tax Board (FTB).

For more information about the EITC Assistant and the free e-file program for the federal tax return, visit www.irs.gov. For more information about the VITA locations and California e-file with the CalFile or the ReadyReturn programs, visit www.ftb.ca.gov, or contact the FTB toll-free at 1-800-852-5711. Find a list of VITA sites within the First Equalization District [here](#).

Betty T. Yee represents the First Equalization District which is comprised of 21 counties in Northern and Central California. The Board hears and decides income, business, and special tax appeals matters and administers a variety of tax and fee programs.